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STATE OF MONTANA
ENVIRONMENTAL QUALITY COUNCIL

FINANCIAL-COMPLIANCE AUDIT FOR THE
TWO FISCAL YEARS ENDED JUNE 30, 1991

PERFORMED UNDER CONTRACT BY:

JAMES J. WOSEPKA
CERTIFIED PUBLIC ACCOUNTANT

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OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MONTANA
STATE CAPITOL • HELENA

A faint, large watermark-like image of a classical building with four prominent columns and a triangular pediment occupies the center of the page.

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**STATE OF MONTANA
ENVIRONMENTAL QUALITY COUNCIL**

**FINANCIAL-COMPLIANCE AUDIT FOR THE
TWO FISCAL YEARS ENDED JUNE 30, 1991**

PERFORMED UNDER CONTRACT BY:

**JAMES J. WOSEPKA
CERTIFIED PUBLIC ACCOUNTANT**



STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit

JAMES GILLETT
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

November 1991

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the audit of the Environmental Quality Council for the two fiscal years ended June 30, 1991.

The audit was conducted by James J. Wosepka, CPA, under a contract between the firm and our office. The comments and recommendations contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

The agency's written response to the report recommendations is included in the back of the audit report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat".

Scott A. Seacat
Legislative Auditor

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ELECTED AND APPOINTED OFFICIALS

ENVIRONMENTAL QUALITY COUNCIL

1989-1991

SENATORS

Tom Beck, Deer Lodge
John Harp, Kalispell
Cecil Weeding, Jordan
Bill Yellowtail, Wyola

REPRESENTATIVES

Jerry Driscoll, Billings
Bob Gilbert, Sidney
Ed Grady, Canyon Creek
Bob Raney, Livingston

PUBLIC MEMBERS

Doug Crandall, Livingston
Thomas France, Missoula
Tom Roy, Missoula
Everett Shuey, Butte

Art Wittich, Governor's Representative
Deborah Schmidt, Director

1991-1993

SENATORS

David Rye, Billings
Steve Doherty, Great Falls
Jerry Noble, Great Falls
Bill Yellowtail, Wyola

REPRESENTATIVES

Jerry Driscoll, Billings
David Hoffman, Sheridan
Ed Grady, Canyon Creek
Bob Raney, Livingston

PUBLIC MEMBERS

Doug Crandall, Livingston
Helen Waller, Circle
Mona Jamison, Helena
John Fitzpatrick, Helena

Art Wittich, Governor's Representative
Deborah Schmidt, Director

WATER POLICY COMMITTEE MEMBERS

1989-1991

SENATORS

Esther Bengtson, Shepherd
Jack Galt, Martinsdale
Larry Stimatz, Butte
Pete Story, Emigrant

REPRESENTATIVES

Hal Harper, Helena
Roger Knapp, Hysham
Vernon Westlake, Bozeman
Tom Zook, Miles City

1991-1993

SENATORS

Esther Bengtson, Shepard
Tom Beck, Deer Lodge
Lawrence G. Stimatz, Butte
Lorentz Grosfield, Big Timber

REPRESENTATIVES

Vivian M. Brooke, Missoula
Russell Fagg, Billings
Hal Harper, Helena
Tom Lee, Bigfork

INTRODUCTION

I performed a financial-compliance audit of the Environmental Quality Council for the two fiscal years ended June 30, 1991. The objectives of the audit were to: (1) determine if the financial schedules present fairly the council's results of operations for the two fiscal years ended June 30, 1991; (2) determine if the council complied with applicable laws and regulations; and (3) make recommendations for improvement in the management and internal controls of the council.

I thank the staff of the Environmental Quality Council for their cooperation and assistance during my audit.

BACKGROUND

The Environmental Quality Council was established by the Extraordinary Session of the 42nd Legislature in 1971 to implement provisions of the Montana Environmental Policy Act (MEPA - Title 75, Chapter 1, MCA). The council functions as an arm of the Legislature, with the role of anticipating and analyzing the causes of environmental problems and recommending solutions to those problems. The Council also insures that state environmental policy is consistently observed by all state agencies that are concerned with environmental matters. The Legislature assigns interim studies relating to natural resources and economic development to the Council. The Council also assists the Legislature by staffing natural resource committees during the legislative sessions.

INTERNAL CONTROL

I have examined the financial schedules of the Environmental Quality Council for the two fiscal years ended June 30, 1991. I issued my opinion dated October 2, 1991 on these schedules. As part of my examination, I made a study and evaluation of the Council's control system. My study evaluated the system as required by generally accepted governmental auditing standards for financial compliance audits. I classified the controls in the following categories:

1. Expenditures/liabilities;
2. Property, plant, and equipment; and
3. Payroll.

My study included the control categories listed above. I applied alternative audit tests to property, plant, and equipment as I determined it was more efficient to expand substantive testing for this area. Through my study, I determined the nature, timing, and extent of my auditing procedures. I did not evaluate the control system to the extent necessary to give an opinion on either individual segments or system as a whole.

The management of the Environmental Quality Council is responsible for establishing and maintaining a system of accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related cost of control procedures. The objectives of a system are to provide management with reasonable assurance that: (1) assets are safeguarded against loss from unauthorized use or disposition; (2) transactions are executed in accordance with management's authorization; and (3) transactions are recorded properly to permit the preparation of financial schedules in accordance with state accounting policies. Inherent limitations in any system of controls may cause errors or irregularities to remain undetected. The current system evaluation should not be used to project to future periods since the procedures may become inadequate or compliance with them may deteriorate.

The limited purpose of my study described in the first paragraph would not necessarily disclose all material weakness in the system. Accordingly, I do not express an opinion on the system of controls used by the Environmental Quality Council.

This report is intended solely for the use of management and the Legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of the document which, upon presentation to the Legislative Audit Committee, is a matter of public record.

PRIOR AUDIT RECOMMENDATIONS

The Environmental Quality Council was last audited for the fiscal years ended June 30, 1988 and 1989, under contract through the Office of the Legislative Auditor. No audit recommendations were made.

CURRENT AUDIT RECOMMENDATIONS

Property Accountability Management System

The property Accountability Management System (PAMS) was not properly updated for each fiscal year. Some of the forms were submitted, but not complete, so the information was not entered or deleted from the system.

Recommendation

I recommend staff be instructed on how the input and deletion forms are to be completed, and that the PAMS be updated on a timely basis.

STATE COMPLIANCE

I reviewed compliance with state laws that could have a material impact on the financial schedules of the Council. In my opinion, the Council complied with the state laws and regulations tested. Nothing came to my attention that causes me to believe untested compliance issues are not in accordance with applicable laws and regulations.

**INDEPENDENT AUDITOR'S REPORT
AND SCHEDULES OF AGENCY FINANCIAL ACTIVITY**

JAMES J. WOSEPKA

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INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
Of the Montana State Legislature:

I have audited the financial schedules of the Office of the Environmental Quality Council for each of the two fiscal years ended June 30, 1990 and 1991, as listed in the table of contents. These financial schedules are the responsibility of the office's management. My responsibility is to express an opinion on these financial schedules based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the management, as well as evaluating the overall financial schedule presentation. I believe that my audit provides a reasonable basis for my opinion.

As described in Note 1 to the financial schedules, the office's financial schedules are prepared in accordance with state accounting policy and are not intended to be a presentation in conformity with generally accepted accounting principles.

In my opinion, the financial schedules referred to in paragraph one present fairly, in all material respects, the results of operations and changes in fund balances of the Office of the Environmental Quality Council for each of the two fiscal years ended June 30, 1990 and 1991, in conformity with the basis of accounting described in Note 1.



Baker, Montana
October 2, 1991

ENVIRONMENTAL QUALITY COUNCIL
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1991

	<u>General Fund</u>	<u>Special Revenue Funds</u>
FUND BALANCE: July 1, 1989	\$ 0	\$ 75
ADDITIONS		
<u>Fiscal Year 1990</u>		
Support From State of Montana	221,780	
Cash Transfers In		7,033
<u>Fiscal Year 1991</u>		
Support From State of Montana	252,295	
Cash Transfers In		6,650
Total Additions	<u>474,075</u>	<u>13,683</u>
REDUCTIONS		
<u>Fiscal Year 1990</u>		
Budgeted Expenditures & Transfers Out	221,780	7,034
<u>Fiscal Year 1991</u>		
Budgeted Expenditures & Transfers Out	<u>252,295</u>	<u>8,936</u>
Total Reductions	<u>474,075</u>	<u>15,970</u>
FUND BALANCE: June 30, 1991	\$ 0	\$ <u>(2,212)</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 8 through 9.

ENVIRONMENTAL QUALITY COUNCIL
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT AND FUND
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1990

	Environmental Quality Council	Water Policy Committee	<u>Total</u>
PERSONAL SERVICES			
Salaries	\$145,425	\$ 1,772	\$147,197
Other Compensation	1,095		1,095
Employee Benefits	<u>30,015</u>	<u>146</u>	<u>30,161</u>
Total	<u>176,535</u>	<u>1,918</u>	<u>178,453</u>
OPERATING EXPENSES			
Other Services	11,458	280	11,738
Supplies & Materials	1,043	225	1,268
Communications	7,978	332	8,310
Travel	16,670	4,279	20,949
Repair & Maintenance	566		566
Other Expenses	<u>2,597</u>		<u>2,597</u>
Total	<u>40,312</u>	<u>5,116</u>	<u>45,428</u>
EQUIPMENT AND INTANGIBLE ASSETS			
Equipment	4,670		4,670
Intangible Assets	<u>263</u>		<u>263</u>
Total	<u>4,933</u>		<u>4,933</u>
TOTAL PROGRAM EXPENDITURES	<u>\$221,780</u>	<u>\$ 7,034</u>	<u>\$228,814</u>
GENERAL FUND			
Budgeted	\$250,167		\$250,167
Actual	<u>221,780</u>		<u>221,780</u>
Unspent Budget Authority	<u>\$ 28,387</u>		<u>\$ 28,387</u>
SPECIAL REVENUE FUND			
Budgeted	\$26,281		\$ 26,281
Actual	<u>7,034</u>		<u>7,034</u>
Unspent Budget Authority	<u>\$19,247</u>		<u>\$ 19,247</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 8 through 9.

ENVIRONMENTAL QUALITY COUNCIL
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT AND FUND
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1991

	<u>Environmental Quality Council</u>	<u>Water Policy Committee</u>	<u>Total</u>
PERSONAL SERVICES			
Salaries	\$165,613	\$ 1,646	\$167,259
Other Compensation	1,890		1,890
Employee Benefits	<u>35,043</u>	<u>138</u>	<u>35,181</u>
Total	<u>202,546</u>	<u>1,784</u>	<u>204,330</u>
OPERATING EXPENSES			
Other Services	17,333	3,435	20,768
Supplies & Materials	1,684		1,684
Communications	8,337	671	9,008
Travel	13,676	3,046	16,722
Rent	145		145
Repair & Maintenance	909		909
Other Expenses	<u>1,664</u>		<u>1,664</u>
Total	<u>43,748</u>	<u>7,152</u>	<u>50,900</u>
EQUIPMENT AND INTANGIBLE ASSETS			
Equipment	5,924		5,924
Intangible Assets	<u>77</u>		<u>77</u>
Total	<u>6,001</u>		<u>6,001</u>
TOTAL PROGRAM EXPENDITURES	<u>\$252,295</u>	<u>\$ 8,936</u>	<u>\$261,231</u>
GENERAL FUND			
Budgeted	\$252,654		\$252,654
Actual	<u>252,295</u>		<u>252,295</u>
Unspent Budget Authority	<u>\$ 359</u>		<u>\$ 359</u>
SPECIAL REVENUE FUND			
Budgeted	\$ 19,411		\$ 19,411
Actual	<u>8,936</u>		<u>8,936</u>
Unspent Budget Authority	<u>\$ 10,475</u>		<u>\$ 10,475</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 8 through 9.

ENVIRONMENTAL QUALITY COUNCIL

NOTES TO THE FINANCIAL SCHEDULES
JUNE 30, 1990 AND 1991

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Environmental Quality Council utilizes the modified accrual basis of accounting which is described in the Montana Operations Manual.

Under the modified accrual basis of accounting, a valid obligation exists when the related liability is incurred except for the following items which are also considered valid obligations under state accounting policy.

- If the appropriation provided funds to complete a given project, the entire amount of a service contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is accrued.
- The anticipated cost of equipment is expensed in the fiscal year in which budgeted.
- Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued in the fiscal year in which the anticipated expenditure is to be accrued.
- Obligations for employees' vested leave and sick leave are recorded as expenditures when paid.

Basis of Presentation

The financial schedules were prepared from Statewide Budgeting and Accounting System (SBAS) without adjustments. Accounts are organized on the basis of funds according to State law. The following fund types are used by the office:

General - accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue - accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Legislative appropriation is required to spend from this fund.

ENVIRONMENTAL QUALITY COUNCIL

NOTES TO THE FINANCIAL SCHEDULES (CONT.)
JUNE 30, 1990 AND 1991

Vacation and Sick Leave

Employees are paid for 100 percent of unused vacation and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for vacation and sick leave are not reflected in the financial schedules of the Environmental Quality Council. Expenditures for termination pay currently are absorbed in the annual operational costs of the council. At June 30, 1990 and 1991, the council had liability for compensated absences of \$21,404 and \$28,702 respectively.

2. PENSION PLAN

Employees are covered by Montana Public Employees' Retirement System (PERS). The council's contributions to the plan are shown below:

Fiscal Year 1990	Fiscal Year 1991
9,009	10,323

3. GENERAL FUND BALANCE

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund as long as they stay within their appropriation limits. Thus, on an agency schedule, the General Fund beginning and ending fund balance will always be zero.

4. SPECIAL REVENUE FUND BALANCE

The special revenue fund is used for water policy expenditures. It is restricted to an appropriation limit. The negative balance in the fund results from a timing difference with the Statewide Accounting and Budgeting System. Expenditure after June 30 of a fiscal year but charged to the prior fiscal year as an expenditure do not appear as a cash transaction but do appear as an expenditure and a liability. This results in a negative fund balance.

AGENCY RESPONSES



STATE OF MONTANA
ENVIRONMENTAL QUALITY COUNCIL
STATE CAPITOL
HELENA, MONTANA 59620
(406) 444-3742

Deborah B. Schmidt, Executive Director

GOV. STAN STEPHENS
Designated Representative
Art Wittich

HOUSE MEMBERS
Jerry Driscoll, Chairman
Ed Grady
David Hoffman
Bob Raney

SENATE MEMBERS
Jerry Nobla, Vice Chairman
Steve Doherty
Dave Rya
Bill Yellowtail

PUBLIC MEMBERS
Doug Crandall
John Fitzpatrick
Mona Jamison
Helen Waller

November 5, 1991

James J. Wosepka, CPA
P. O. Box 602
Baker, MT 59313

Dear Mr. Wosepka:

This letter is the Environmental Quality Council's official acceptance of the draft financial compliance audit report for the two fiscal years ended June 30, 1991.

We concur with your recommendation concerning updating the Property Accountability Management Systems (PAMS). The items missing from the inventory were purchased just prior to the legislative session and we neglected to add them during the press of legislative business.

If you have any questions concerning our response, please let me know. We appreciated working with you and thank you for your efforts on our behalf.

Sincerely yours,

Deborah B. Schmidt
Executive Director

